

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of East Bay</u>	County Grand Traverse
Audit Date December 31, 2005	Opinion Date June 15, 2006	Date Accountant Report Submitted To State: July 31, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 1010 South Garfield Avenue	City Traverse City	State MI	ZIP 49686
Accountant Signature <i>Plante & Moran, PLLC</i>			

**Charter Township of East Bay
Grand Traverse County, Michigan**

**Financial Report
with Supplemental Information
December 31, 2005**

Charter Township of East Bay

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Independent Auditor's Report

To the Township Board
Charter Township of East Bay

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of East Bay as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of East Bay's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township has not maintained adequate accounting records and has experienced instances of fraud during the year ended December 31, 2005; as a result, we were unable to apply procedures to determine the proper balance of special assessment receivables and proper classification of expenditures.

Since the Township did not maintain adequate accounting records and experienced instances of fraud, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statement of activities, statement of revenue, expenditures, and changes in fund balance/net assets, and the statement of cash flows for the governmental and business-type activities, each major fund, and the aggregate remaining funds as of and for the year ended December 31, 2005.

In our opinion, except for the effects of any adjustments that might have been determined to be necessary had the special assessment receivable referred to above been susceptible to satisfactory audit tests, the statement of net assets and the balance sheets present fairly, in all material respects, the respective fund position of the governmental and business-type activities, each major fund, and the aggregate remaining funds of the Charter Township of East Bay thereof for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

To the Township Board
Charter Township of East Bay

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of East Bay's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moreau, PLLC

June 15, 2006

Charter Township of East Bay

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of East Bay, Grand Traverse County, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005:

- Total net assets related to the Township's governmental activities increased by approximately \$208,000.
- The fund balance in the General Fund increased by approximately \$212,000, increasing fund balance to approximately \$164,000 from the prior year deficit fund balance of approximately \$48,000.
- Property tax revenue in the Township's governmental activities increased by approximately \$83,000.
- Charges for services revenue in the Water and Sewer Fund increased by approximately \$700,000 due to increased rates and usage by Township residents.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 1,815	\$ 1,567	\$ 1,881	\$ 1,936	\$ 3,696	\$ 3,503
Noncurrent assets	2,581	2,565	13,918	13,961	16,499	16,526
Total assets	4,396	4,132	15,799	15,897	20,195	20,029
Liabilities						
Current liabilities	1,212	1,129	635	787	1,846	1,916
Long-term liabilities	338	365	7,340	7,864	7,678	8,229
Total liabilities	1,550	1,494	7,975	8,651	9,524	10,145
Net Assets						
Invested in capital assets - Net of related debt	1,215	1,316	6,054	5,536	7,269	6,852
Restricted	474	410	-	-	474	410
Unrestricted	1,157	912	1,770	1,710	2,927	2,622
Total net assets	\$ 2,846	\$ 2,638	\$ 7,824	\$ 7,246	\$ 10,670	\$ 9,884

The Township's combined net assets increased 8 percent from a year ago, increasing from \$9,883,672 to \$10,669,666. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities increased by approximately \$208,000 and net assets of business-type activities increased by approximately \$578,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$245,000 for the governmental activities. This represents an increase of 26.9 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,156,977, or about 54.3 percent, of expenditures.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year and as compared to the prior year (in thousands of dollars):

Summary Condensed Income Statement:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 369	\$ 367	\$ 2,171	\$ 1,472	\$ 2,540	\$ 1,839
Operating grants and contributions	101	15	-	10	101	25
General revenue:						
Property taxes	1,013	930	-	-	1,013	930
State-shared revenue	677	658	-	-	677	658
Unrestricted investment earnings	28	8	22	7	50	15
Franchise fees	44	38	-	-	44	38
Other revenue	64	9	-	-	64	9
Total revenue	2,296	2,025	2,193	1,489	4,489	3,514
Program Expenses						
General government	990	981	-	-	990	981
Public safety	904	770	-	-	904	770
Public works	126	133	-	-	126	133
Recreation and culture	54	79	-	-	54	79
Capital outlay and repairs	-	-	-	-	-	-
Interest on long-term debt	14	15	-	-	14	15
Water and sewer	-	-	1,615	1,651	1,615	1,651
Total program expenses	2,088	1,978	1,615	1,651	3,703	3,629
Change in Net Assets	\$ 208	\$ 47	\$ 578	\$ (162)	\$ 786	\$ (115)

Governmental Activities

The Township's property tax revenue increased by approximately \$83,000 due to increased property tax values. Other revenue increased by approximately \$54,000 from a partial recovery of fraud damages. Operating grants and contributions increased approximately \$86,000 due to a contribution from the Water and Sewer Fund.

The Township incurred increases in expenditures in some areas. The fee for the public safety labor contract paid to the joint venture increased during 2005. In addition, noncapitalizable capital outlay increased due to a number of purchases made during 2005 less than the Township's capitalization policy. These expenditures were slightly offset by a reduction in payroll due to fewer employees in 2005.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. The Grand Traverse County Department of Public Works (GTDPW) provides water services to the residents of Grand Traverse County, including East Bay Charter Township. GTDPW bills the residents for these services and passes the related funds on to the Township. Revenue and expenses from the sale of water was \$1,031,000 and \$362,000, respectively, in 2005.

The Township entered into a master sewer agreement with the City of Traverse City and various townships in Grand Traverse and Leelanau Counties, as well as Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. The Township pays an amount sufficient to cover its pro rata share of treatment plant costs, as determined by its volume of sewage treated in relation to total sewage treated at the plant. The Township's revenue and expenses from sewage disposal were \$1,037,000 and \$326,000, respectively, in 2005.

Additional costs incurred in relation to both water and sewer included depreciation expense of \$355,000 and interest expense of \$423,000. In total, revenues exceeded expense for the combined Water and Sewer Fund by \$578,000 primarily due to increased water and sewer rates and usage by the Township residents.

The Township's Funds

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005 include the General Fund and the Fire Fund.

General Fund Budgetary Highlights

There were no significant variations between original and final budget amounts. Actual revenue was \$60,000 less than budgeted revenue. The shortfalls were primarily in state sources and charges for services. Actual expenditures were \$281,000 less than budgeted. The expenditure reductions made by the Township did cover the shortfall in revenue and therefore, fund balance was \$221,000 more than budgeted at December 31, 2005.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2005, the Township had \$15,498,000 invested in a broad range of capital assets, including buildings, ambulance, fire, compactor equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township, which are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Grand Traverse County Road Commission (along with the responsibility to maintain them).

Economic Factors and Next Year's Budgets

The Township's General Fund budget for next year calls for \$1,282,300 in revenue and \$1,271,834 in expenditures. Decreases in revenue were budgeted for state sources and compactor station, offset by minimal increases in property taxes and licenses and permits. The decrease in revenue produced budgeted decreases in the township board, clerk, and township hall expenditure budgets.

One new road special assessment was started and completed during early 2006. In addition, the Township began the 3 Mile Road water main relocation project.

Identification of Fraud

During 2005, fraud was discovered in the clerk's office that impacted the 2004 and 2005 financial results. The investigation is complete and final damages and possible recoveries have been calculated to be approximately \$125,000, of which \$53,000 has been collected through June 15, 2006.

Management and the board have taken many steps to strengthen the internal controls of the Township. However, the problems encountered in 2004 continued to impact 2005 and a portion of 2006, as significant time and effort will be invested in resolving these issues. The Township is committed to strengthening controls, protecting the residents' assets, and obtaining reliable financial information on a timely basis.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Charter Township of East Bay

Statement of Net Assets December 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 576,849	\$ 1,021,781	\$ 1,598,630
Receivables:			
Property taxes/special assessments	986,878	743,736	1,730,614
Intergovernmental	152,910	115,271	268,181
Interest and other	98,161	-	98,161
Investment in joint venture (Note 10)	1,001,000	-	1,001,000
Capital assets - Nondepreciable (Note 5)	768,104	-	768,104
Capital assets - Depreciable - Net (Note 5)	811,845	13,918,192	14,730,037
Total assets	4,395,747	15,798,980	20,194,727
Liabilities			
Accounts payable	63,372	46,666	110,038
Accrued and other liabilities	16,789	64,080	80,869
Deferred revenue (Note 4)	1,104,771	-	1,104,771
Noncurrent liabilities (Note 7):			
Due within one year	26,606	524,852	551,458
Due in more than one year	338,184	7,339,741	7,677,925
Total liabilities	1,549,722	7,975,339	9,525,061
Net Assets			
Invested in capital assets - Net of related debt	1,215,159	6,053,599	7,268,758
Restricted for:			
Fire and ambulance services	375,709	-	375,709
Township improvements	90,019	-	90,019
Construction code inspections	8,161	-	8,161
Unrestricted	1,156,977	1,770,042	2,927,019
Total net assets	\$ 2,846,025	\$ 7,823,641	\$ 10,669,666

Charter Township of East Bay

Statement of Activities Year Ended December 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 990,166	\$ 313,707	\$ 101,117	\$ (575,342)	\$ -	\$ (575,342)
Public safety	904,202	55,734	-	(848,468)	-	(848,468)
Public works	125,839	-	-	(125,839)	-	(125,839)
Recreation and culture	53,507	-	-	(53,507)	-	(53,507)
Interest on long-term debt	14,022	-	-	(14,022)	-	(14,022)
Total governmental activities	2,087,736	369,441	101,117	(1,617,178)	-	(1,617,178)
Business-type activities - Water and sewer	1,615,322	2,170,953	-	-	555,631	555,631
Total primary government	<u>\$ 3,703,058</u>	<u>\$ 2,540,394</u>	<u>\$ 101,117</u>	(1,617,178)	555,631	(1,061,547)
General revenues:						
Property taxes				1,012,542	-	1,012,542
State-shared revenues				677,321	-	677,321
Unrestricted investment earnings				28,075	22,414	50,489
Franchise fees				44,029	-	44,029
Miscellaneous				63,160	-	63,160
Total general revenues				1,825,127	22,414	1,847,541
Change in Net Assets				207,949	578,045	785,994
Net Assets - Beginning of year				2,638,076	7,245,596	9,883,672
Net Assets - End of year				\$ 2,846,025	\$ 7,823,641	\$ 10,669,666

Charter Township of East Bay

Governmental Funds Balance Sheet December 31, 2005

	General Fund	Fire Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 109,935	\$ 376,895	\$ 90,019	\$ 576,849
Receivables:				
Property taxes	255,328	731,550	-	986,878
Intergovernmental	152,910	-	-	152,910
Interest and other	82,985	15,176	-	98,161
Due from other funds (Note 6)	-	53,981	-	53,981
Total assets	<u>\$ 601,158</u>	<u>\$ 1,177,602</u>	<u>\$ 90,019</u>	<u>\$ 1,868,779</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 53,273	\$ 10,099	\$ -	\$ 63,372
Accrued and other liabilities	16,789	-	-	16,789
Due to other funds (Note 6)	53,981	-	-	53,981
Deferred revenue (Note 4)	312,977	791,794	-	1,104,771
Total liabilities	437,020	801,893	-	1,238,913
Fund Balances				
Reserved for:				
Fire and ambulance services	-	375,709	-	375,709
Township improvements	-	-	90,019	90,019
Construction code inspections	8,161	-	-	8,161
Unreserved - Reported in General Fund	155,977	-	-	155,977
Total fund balances	<u>164,138</u>	<u>375,709</u>	<u>90,019</u>	<u>629,866</u>
Total liabilities and fund balances	<u>\$ 601,158</u>	<u>\$ 1,177,602</u>	<u>\$ 90,019</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,579,949
Joint venture investments used in governmental activities are not financial resources and are not reported in the funds				1,001,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(364,790)
Net assets of governmental activities				<u>\$ 2,846,025</u>

Charter Township of East Bay

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended December 31, 2005

	General Fund	Fire Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 280,391	\$ 732,151	\$ -	\$ 1,012,542
Licenses and permits	19,151	-	-	19,151
State-shared revenues	677,321	-	-	677,321
Charges for services	294,556	57,758	-	352,314
Franchise fees	-	-	44,029	44,029
Interest and rentals	7,568	17,899	2,608	28,075
Other	63,110	50	-	63,160
Total revenue	1,342,097	807,858	46,637	2,196,592
Expenditures				
General government	701,154	-	-	701,154
Public safety	222,979	756,344	-	979,323
Public works	110,568	-	-	110,568
Recreation and culture	27,900	-	-	27,900
Insurance and other	268,778	2,263	128	271,169
Debt service	-	-	39,660	39,660
Total expenditures	1,331,379	758,607	39,788	2,129,774
Excess of Revenue Over Expenditures	10,718	49,251	6,849	66,818
Other Financing Sources (Uses) - Transfer in (out) (Note 6)	201,117	-	(100,000)	101,117
Net Change in Fund Balances	211,835	49,251	(93,151)	167,935
Fund Balances (Deficit) - Beginning of year	(47,697)	326,458	183,170	461,931
Fund Balances - End of year	<u>\$ 164,138</u>	<u>\$ 375,709</u>	<u>\$ 90,019</u>	<u>\$ 629,866</u>

Charter Township of East Bay

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 167,935
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Current year allocation of depreciation	(126,600)
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Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(2,024)
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Investment in joint venture income reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	143,000
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	25,638
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Change in Net Assets of Governmental Activities	<u>\$ 207,949</u>
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Charter Township of East Bay

Proprietary Funds Statement of Net Assets December 31, 2005

	Enterprise Fund - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,021,781
Receivables:	
Special assessments	743,736
Intergovernmental	<u>115,271</u>
Total current assets	1,880,788
Noncurrent assets - Capital assets (Note 5)	<u>13,918,192</u>
Total assets	15,798,980
Liabilities	
Current liabilities:	
Accounts payable	46,666
Accrued and other liabilities	64,080
Current portion of long-term debt (Note 7)	<u>524,852</u>
Total current liabilities	635,598
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	<u>7,339,741</u>
Total liabilities	<u>7,975,339</u>
Net Assets	
Investment in capital assets - Net of related debt	6,053,599
Unrestricted	<u>1,770,042</u>
Total net assets	<u><u>\$ 7,823,641</u></u>

Charter Township of East Bay

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Enterprise Fund - Water and Sewer Fund
Operating Revenue	
Sale of water	\$ 1,031,090
Sewage disposal charges	1,037,482
Installation fees	43,465
Other charges for services	58,916
Total operating revenue	2,170,953
Operating Expenses	
Cost of water produced/purchased	362,084
Cost of sewage treatment	325,505
Depreciation	355,155
Capital outlay	39,268
Other	9,251
Total operating expenses	1,091,263
Operating Income	1,079,690
Nonoperating Revenue (Expense)	
Investment income	22,414
Interest expense	(422,942)
Net Income	679,162
Transfers to Other Funds (Note 6)	(101,117)
Change in Net Assets	578,045
Net Assets - Beginning of year	7,245,596
Net Assets - End of year	<u><u>\$ 7,823,641</u></u>

Charter Township of East Bay

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2005

	Enterprise Fund - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 2,109,267
Payments to suppliers	(806,288)
Internal activity - Payments to other funds	<u>(45,948)</u>
Net cash provided by operating activities	1,257,031
Cash Flows from Capital and Related Financing Activities	
Collection of customer assessments (principal and interest)	149,801
Purchase of capital assets	(311,907)
Principal and interest paid on capital debt	<u>(920,148)</u>
Net cash used in capital and related financing activities	(1,082,254)
Cash Flows from Investing Activities	
Interest received on investments	22,414
Internal activity - Transfer to other funds for investing activities	<u>(101,117)</u>
Net cash used in investing activities	<u>(78,703)</u>
Net Increase in Cash and Cash Equivalents	96,074
Cash and Cash Equivalents - Beginning of year	<u>925,707</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,021,781</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,079,690
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	355,155
Changes in assets and liabilities:	
Receivables	47,246
Accounts payable and accrued liabilities	<u>(225,060)</u>
Net cash provided by operating activities	<u>\$ 1,257,031</u>

Charter Township of East Bay

Fiduciary Funds Statement of Assets and Liabilities December 31, 2005

	<u>Agency Funds</u>
Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 728,194</u></u>
Liabilities	
Due to other governmental units	\$ 681,699
Due to others	<u>46,495</u>
Total liabilities	<u><u>\$ 728,194</u></u>

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of East Bay (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of East Bay:

Reporting Entity

The Charter Township of East Bay is governed by an elected seven-member board. The accompanying financial statements present the Township only since there are no component units which should be included as part of the Township's reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund - The Fire Fund accounts for the operation of the Township fire department and ambulance services. Financing is provided by a special property tax levy.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to residents, financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended December 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$359,076,800, on which taxes levied consisted of 0.761 mills for operating purposes. The millage for fire and ambulance services of 2.15 mills is levied on a taxable valuation of \$345,241,100 (real property only). This resulted in approximately \$275,000 for operating and \$742,000 for fire and ambulance services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 for equipment, machinery, and furniture, and \$5,000 for building, building improvements, and other improvements, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water and sewer distribution systems	50 years
Buildings and improvements	40 to 50 years
Vehicles	3 to 5 years
Office furnishings and tools	3 to 7 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at January 1, 2005		\$	(4,255)
Current year building permit revenue	\$	19,151	
Related expenses - Direct costs		<u>(6,735)</u>	<u>12,416</u>
Accumulated balance at December 31, 2005		\$	<u><u>8,161</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The investment policy adopted by the board has authorized all of the investments in the state authority as listed above. The Township's deposits and investment policies are in accordance with statutory policy.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$1,200,504 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, \$98,124 was held in a bank investment pool.

The bank investment pool is held by the trust department of the bank and regulated by the Michigan Banking Act. The fair value of the position in the bank investment pool is the same as the value of the pooled shares. The bank investment pool is not rated as of December 31, 2005.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At December 31, 2005, the Township had \$1,104,771 in unearned revenue related to property taxes.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2005	Additions	Balance December 31, 2005
Governmental Activities			
Capital assets not being depreciated - Land	\$ 768,104	\$ -	\$ 768,104
Capital assets being depreciated:			
Buildings and improvements	1,068,487	-	1,068,487
Vehicles	280,269	-	280,269
Office furnishings and tools	276,000	-	276,000
Subtotal	1,624,756	-	1,624,756
Accumulated depreciation:			
Buildings and improvements	279,783	31,117	310,900
Vehicles	178,075	56,054	234,129
Office furnishings and tools	228,453	39,429	267,882
Subtotal	686,311	126,600	812,911
Net capital assets being depreciated	938,445	(126,600)	811,845
Net capital assets	<u>\$ 1,706,549</u>	<u>\$ (126,600)</u>	<u>\$ 1,579,949</u>
Business-type Activities			
Capital assets being depreciated - Water and sewer distribution systems	\$ 17,601,731	\$ 311,907	\$ 17,913,638
Accumulated depreciation - Water and sewer distribution systems	3,640,292	355,154	3,995,446
Net capital assets	<u>\$ 13,961,439</u>	<u>\$ (43,247)</u>	<u>\$ 13,918,192</u>

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the Township as follows:

Governmental activities:

General government	\$ 28,627
Public safety	61,144
Public works	12,799
Recreation and culture	<u>24,030</u>
Total governmental activities	<u>\$ 126,600</u>

Business-type activities:

Water	\$ 180,585
Sewer	<u>174,569</u>
Total business-type activities	<u>\$ 355,154</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
Fire Fund	General Fund	<u>\$ 53,981</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Budget Stabilization Fund	General Fund	\$ 100,000
Water and Sewer Fund	General Fund	<u>101,117</u>
Total		<u>\$ 201,117</u>

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfer from the Budget Stabilization Fund to the General Fund represents the use of allocated funds to offset the negative fund balance at December 31, 2004. The transfer from the Water and Sewer Fund to the General Fund represents a repayment of a prior year expenditure paid by the General Fund for the Water and Sewer Fund.

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
Installment purchase agreements -						
Township Hall agreement:						
Amount of issue: \$415,265		\$26,606 -				
Maturing through December 2010	3.70%	\$221,483	\$ 390,428	\$ (25,638)	\$ 364,790	\$ 26,606
Business-type Activities						
Contractual obligations with Grand Traverse County:						
1991 Water and Sanitary Sewer Extension #1 Special						
Assessment:						
Amount of issue: \$1,330,000		\$80,000 -				
Maturing through November 1, 2011	6.37%	\$95,000	\$ 590,000	\$ (70,000)	\$ 520,000	\$ 80,000
1991 Water and Sanitary Sewer Extension #2 Special						
Assessment:						
Amount of issue: \$210,000		\$10,000 -				
Maturing through July 1, 2011	4.77%	\$15,000	75,000	(10,000)	65,000	10,000
Sewage Disposal System Series 1994:						
Amount of issue: \$210,000		\$10,000 -				
Maturing through November 1, 2013	6.04%	\$15,000	110,000	(15,000)	95,000	10,000
Sewage Disposal System Series 2002:						
Amount of issue: \$800,000		\$30,000 -				
Maturing through May 1, 2023	4.08%	\$60,000	740,000	(30,000)	710,000	30,000
Sewage Disposal System Bonds Series 1993:						
Amount of issue: \$925,000		\$55,000 -				
Maturing through November 1, 2012	5.00%	\$80,000	525,000	(55,000)	470,000	55,000
Sewage Disposal System Bonds Series 1995:						
Amount of issue: \$3,725,000		\$15,033 -				
Maturing through May 1, 2015	2.62%	\$30,065	208,447	(15,663)	192,784	15,033
Sewage Disposal System Bonds Series 1998:						
Amount of issue: \$1,565,000		\$9,200 -				
Maturing through May 1, 2013	3.58%	\$13,340	107,393	(8,170)	99,223	9,200
Sewage Disposal System Bonds Series 2002:						
Amount of issue: \$32,900,000		\$43,207 -				
Maturing through November 1, 2022	3.80%	\$66,720	1,133,992	(41,349)	1,092,643	43,207
Water System Improvements Series 2001:						
Amount of issue: \$1,250,000		\$45,000 -				
Maturing through May 1, 2021	4.66%	\$95,000	1,125,000	(45,000)	1,080,000	45,000
Sewer/Water Improvements Bonds Series 2003:						
Amount of issue: \$6,745,000		\$137,412 -				
Maturing through November 1, 2023	4.06%	\$234,589	3,245,415	(125,472)	3,119,943	137,412
Installment Purchase - Water Main Extensions:						
Amount of issue: \$660,000		\$50,000 -				
Maturing through June 1, 2011	6.00%	\$65,000	380,000	(45,000)	335,000	50,000
Installment Purchase - Water System Lease Purchase:						
Amount of issue: \$340,000		\$40,000 -				
Maturing through February 15, 2007	5.45%	\$45,000	125,000	(40,000)	85,000	40,000
Total business-type activities			\$ 8,365,247	\$ (500,654)	\$ 7,864,593	\$ 524,852

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 26,606	\$ 13,054	\$ 39,660	\$ 524,851	\$ 331,407	\$ 856,258
2007	27,608	12,052	39,660	541,176	309,128	850,304
2008	28,647	11,013	39,660	519,647	286,642	806,289
2009	29,724	9,936	39,660	530,971	263,619	794,590
2010	252,205	8,817	261,022	564,123	240,381	804,504
2011-2015	-	-	-	2,109,071	836,383	2,945,454
2016-2020	-	-	-	1,950,912	465,079	2,415,991
2021-2025	-	-	-	1,123,842	86,980	1,210,822
Total	<u>\$ 364,790</u>	<u>\$ 54,872</u>	<u>\$ 419,662</u>	<u>\$ 7,864,593</u>	<u>\$ 2,819,619</u>	<u>\$ 10,684,212</u>

On April 27, 2006, the Township issued 2006 General Obligation Limited Tax Capital Improvement Bonds for \$201,000 for a water relocation project.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits, participates in the Michigan Municipal Underwriters for claims relating to property loss, torts, and errors and omissions, and carries workers' compensation insurance with the Michigan Municipal League. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The Township contributes 11 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested immediately.

The Township's total payroll during the current year was \$511,554. The current year contribution was calculated based on covered payroll of \$228,190, resulting in an employer contribution of \$22,228 and employee contributions of \$0.

Charter Township of East Bay

Notes to Financial Statements December 31, 2005

Note 10 - Joint Venture

The Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2010 with the City of Traverse City, the Townships of Acme, Peninsula, and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. Ownership of the treatment plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself and the Townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the Townships as to the treatment plant's operation and the Townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of treatment plant costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

The Township is responsible for debt service on the debt issues listed in Note 7 as determined biannually based upon the percentage of the Township's flow to the total flow through the treatment plant. For the biannual period ended December 31, 2005, the Township's percentage was 10.2 percent.

The Township also contributes one mill of its Fire Fund tax levy to the Grand Traverse County Fire Department - Metro Division (Metro). Metro is a joint venture between the Township and Acme and Garfield Townships of Grand Traverse County. The Township's equity interest was 27.5 percent at December 31, 2005. This equity interest is adjusted annually and the 2005 equity interest balance is approximately \$1,001,000.

Note 11 - Contingent Liabilities

From time to time, the Township is party to various lawsuits and claims arising out of the normal conduct of its business. In the opinion of management, the financial position of the Township will not be materially affected by the final outcome of these legal proceedings.

Required Supplemental Information

Charter Township of East Bay

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 275,257	\$ 275,257	\$ 280,391	\$ 5,134
State sources	771,725	771,725	677,321	(94,404)
Fees and permits	8,000	8,000	19,151	11,151
Charges for services	319,175	319,175	294,556	(24,619)
Interest income	4,000	4,000	7,568	3,568
Other income	23,500	23,500	63,110	39,610
Total revenues	1,401,657	1,401,657	1,342,097	(59,560)
Expenditures				
General government:				
Township board	121,572	121,572	238,010	116,438
Supervisor	49,862	49,862	49,249	(613)
Elections	4,200	4,200	3,850	(350)
Assessor	102,922	116,947	94,162	(22,785)
Clerk	66,325	66,325	59,565	(6,760)
Board of review	1,480	1,480	940	(540)
Treasurer	77,783	77,736	73,464	(4,272)
Township hall and grounds	207,896	207,896	181,914	(25,982)
Public safety:				
Sheriff patrol	124,224	124,224	124,253	29
Planning	23,327	23,327	17,702	(5,625)
Zoning	117,550	127,550	81,024	(46,526)
Public works:				
Roads and highways	45,000	45,000	14,193	(30,807)
Street lighting	11,000	11,000	10,456	(544)
Compactor	88,894	91,394	85,919	(5,475)
Recreation and culture	50,940	70,940	27,900	(43,040)
Insurance and other	308,005	271,527	268,778	(2,749)
Total expenditures	1,400,980	1,410,980	1,331,379	(79,601)
Other Financing Sources - Transfer in	-	-	201,117	201,117
Net Change in Fund Balance	677	(9,323)	211,835	221,158
Fund Balance (Deficit) - Beginning of year	(47,697)	(47,697)	(47,697)	-
Fund Balance (Deficit) - End of year	<u>\$ (47,020)</u>	<u>\$ (57,020)</u>	<u>\$ 164,138</u>	<u>\$ 221,158</u>

Charter Township of East Bay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 772,015	\$ 772,015	\$ 732,151	\$ (39,864)
Charges for services	51,000	51,000	57,758	6,758
Interest income	4,050	4,050	17,899	13,849
Other income	-	-	50	50
Total revenues	827,065	827,065	807,858	(19,207)
Expenditures - Public safety	826,994	826,994	758,607	(68,387)
Net Change in Fund Balance	71	71	49,251	49,180
Fund Balance - Beginning of year	326,458	326,458	326,458	-
Fund Balance - End of year	<u>\$ 326,529</u>	<u>\$ 326,529</u>	<u>\$ 375,709</u>	<u>\$ 49,180</u>

Charter Township of East Bay

Note to Required Supplemental Information Year Ended December 31, 2005

Note - Budgetary Information

The annual budget is prepared by the Township supervisor, with the assistance of the Township treasurer and clerk, and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Fund budgets as adopted by the Township board is included in the required supplemental information.

This comparison includes expenditure budget overruns. A comparison of the actual results of operations to the nonmajor Special Revenue Fund budget as adopted by the Township board is available at the clerk's office for inspection.

During the year, the Township incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Township board	\$ 121,572	\$ 238,010

Other Supplemental Information

Charter Township of East Bay

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Township Improvement	Budget Stabilization	
Assets - Cash and investments	<u>\$ 90,019</u>	<u>\$ -</u>	<u>\$ 90,019</u>
Fund Balances - Reserved for Township improvements	<u>\$ 90,019</u>	<u>\$ -</u>	<u>\$ 90,019</u>

Charter Township of East Bay

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Township Improvement	Budget Stabilization	
Revenue			
Franchise fees	\$ 44,029	\$ -	\$ 44,029
Interest income	2,608	-	2,608
Total revenue	46,637	-	46,637
Expenditures			
Capital outlay	128	-	128
Debt service	39,660	-	39,660
Total expenditures	39,788	-	39,788
Excess of Revenue Over Expenditures	6,849	-	6,849
Other Financing Uses - Transfers out	-	(100,000)	(100,000)
Net Change in Fund Balances	6,849	(100,000)	(93,151)
Fund Balances - Beginning of year	83,170	100,000	183,170
Fund Balances - End of year	<u>\$ 90,019</u>	<u>\$ -</u>	<u>\$ 90,019</u>

June 15, 2006

To the Township Board
Charter Township of East Bay

In planning and performing our audit of the financial statements for the Charter Township of East Bay for the year ended December 31, 2005, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

As a result of our audit, we have prepared the following report which includes required letters and other information presented in the following sections:

- Part I - Current year items
- Part II - Prior year items in process
- Part III - Prior year items implemented
- Part IV - New Accounting and Regulatory Pronouncements

We would also like to compliment the Township for the progress that has been made in the latter part of 2005 and more so in 2006 to bring records up to date and implement new internal controls. With a new clerk and treasurer on board during the first half of 2006, we anticipate that this progress will continue and look forward to working with everyone in the future.

To the Township Board
Charter Township of East Bay

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June 15, 2006

This report is intended solely for the information and use of the Township board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon Vargo, CPA
Partner

cc: Glen Lile, Supervisor

2005 Items

Reportable Conditions

Bank Reconciliations - Bank reconciliations before October 2005 were not prepared on a timely basis. An accounting consultant was hired to prepare bank reconciliations for January - August 2005, including reconciliation to the general ledger. Bank reconciliations are required to be completed on a timely basis to provide accurate cash information for management to use in making decisions. To document timely preparation, we recommend the Township incorporate a sign-off/date procedure for both the preparer and reviewer of the bank reconciliations.

Payroll - We noted that the clerk enters hours worked on payroll sheets submitted to IPS (independent payroll service) for processing without having a review process in place. Time sheets are required to be approved by the employee's immediate supervisor; however, there is no review of the actual information submitted to IPS or the actual payroll checks returned by IPS. We also noted that the deputy clerk's timesheets are only reviewed/approved by the clerk, who subsequently enters the time on the payroll summary sheet submitted to IPS. We did not observe a second review. Both of these instances create a potential opportunity for inadvertent errors in payroll checks. We recommend hours summaries submitted to IPS, as well as the deputy clerk's hours be reviewed by the treasurer or supervisor to ensure the accuracy of actual hours worked. In addition, the treasurer should directly fax the reviewed summary sheet to IPS.

During testing of one employee's payroll activity, we noted pay rate increases are hand written on the front of the employee's personnel file without any further documentation of the pay rate. We recommend the Township maintain an approved pay rate increase sheet in employees' files documenting all approved pay increases.

Other Items

Cash Disbursement Support - There were three instances where the invoice for a cash disbursement was not attached to the remittance advice portion of the check maintained in the accounts payable vendor files. In two cases, an invoice copy was located in a board packet for approval; however, we found that one of these invoices did not agree to the amount paid to the vendor. The third disbursement was for a bond payment made to the County. We were unable to trace the principal and interest portions of the bond payment without the supporting invoice from the County. We also noted that invoices have not been cancelled once paid. This could allow an invoice to be paid more than once.

We recommend supporting documentation (approved purchase order, invoice, notations of adjustments to invoices) be maintained for each check issued by the Township. In addition, we recommend that invoices be cancelled through use of a "paid" stamp (or some other form of cancellation) that indicates the invoice has been paid.

Bank Statements - We found that bank statements could not be located for one bank account at National City Bank. We were able to confirm that the account was closed during 2005. We recommend the Township maintain all bank statements for an appropriate period of time, even for accounts that have been closed.

Deposits in Transit - We noted several deposits in transit on the December property tax bank reconciliation totaling \$636,740. The cash was received before December 31, 2005 but was not deposited until January 5, 2006. This could create an opportunity for funds to be misplaced. We recommend deposits be made on a timely basis, preferably daily when cash receipts are significant.

Bank Reconciliation Differences - There were reconciliation differences maintained month-to-month on several bank reconciliations. These adjustments reflect errors requiring journal entries to correct the general ledger to accurately reflect cash activity in the bank. We recommend these reconciling amounts be adjusted in a timely manner to prevent future bank reconciliation differences.

One of the reconciliation items was for a special assessment cash receipt that was deposited into an incorrect bank account on December 12, 2005 for \$6,311. The cash receipt was recorded correctly in the general ledger. As of December 31, 2005, the cash receipt was a reconciling item on both bank reconciliations. We recommend the deposit amount be transferred to correct this issue as soon as possible.

Voided Checks - During review of board minutes, we noted several checks have been voided throughout 2005. We recommend investigating the cause of these occurrences and avoid something similar in the future. We also recommend that the Township maintain a folder of the voided checks for safekeeping and remove the signature area to prevent misuse.

Journal Entries - We noted review of journal entries posted to the general ledger was not being performed and support for the journal entries was not maintained in 2005. In 2006, the Township began using a master journal entry form that describes the purpose of each journal entry form. We recommend that the master journal entry form include support for journal entries in addition to documenting a preparer and a reviewer.

Upon review of journal entries for 2005, we noted several journal entries made using the supervisor user ID, who does not have access to the general ledger program. We did not note any journal entries posted in 2006 using the supervisor user ID. As an additional control, we recommend a periodic review by the supervisor of all journal entries posted, looking at the reasonableness of the entry and who posted it.

2004 Items in Process

Material Weaknesses

Special Assessments - In 2004, we were not provided with a specific listing for the water and sewer special assessment receivable balances, and so were unable to individually identify the balance due from Township residents. We could not clearly determine if an individual special assessment had been prepaid or was delinquent due to (1) the commingling of funds with other enterprise funds, and (2) poor use of the due to/from other funds accounts as a result of the commingling. The Township has received conflicting information from the treasurer and another individual involved with the process.

Status - In 2005, a detailed listing of special assessments by parcel number was provided; however, the special assessment receivable balances recorded in the general ledger did not reconcile to the detailed listing. As of May 2006, the newly appointed treasurer is performing reviews of special assessment activity to determine the correct balance of all special assessments and beginning to perform a reconciliation to the general ledger.

Reconciliations - In 2004, a reconciliation had not been performed between the treasurer and the clerk for cash flow activity. This is critical because one account is used for property taxes and special assessments, compactor station activity, fire department ambulance fees, and general cash disbursements. The absence of this reconciliation could result in a material misstatement to the financial statements that would not be detected timely.

Status - In 2005, the fire department ambulance fees have been segregated into separate accounts at the end of 2005 to help track the cash receipts. The compactor station has developed a punch card policy in September 2005 to also help track cash receipts properly. A reconciliation between the treasurer and the clerk has not been performed to date. For 2006, the Township must create procedures to initiate communication and reconciliation between the treasurer and the clerk.

Reportable Conditions

Sick and Vacation Records - In 2004, the Township was unable to produce a report that showed the sick and vacation activity for the year. For audit purposes, there is no liability at the end of the year required to be recorded, due to the Township's policy that any paid time off awarded is "use it or lose it" as of the end of the year. However, for control testing, we were unable to determine if controls are in place for proper payment of personal days. The software appears to be set up to only show the current open year's (2005) activity and could not produce a report from the audited year 2004. Upon review of all 2004 payroll reports, we found that the system only reports time paid for sick and vacation for hourly employees. The salaried employees only show the salary amount without the break-out between personal days/hours and normal salary. The implementation of outsourcing the payroll function will alleviate this issue. The outside payroll processor will track sick and vacation time used for all employees.

Status - The payroll module was unable to produce a report that would track the sick and vacation activity for the first half of 2005. Beginning July 2005, the Township began utilizing IPS for payroll processing services. IPS does show the amount paid for sick and vacation pay; however, IPS does not track the accumulated balances. In 2006, the clerk is responsible for tracking the amount of sick and vacation earned by employees as well as reviewing when the time is used to make sure the employee has enough time accumulated. The clerk maintains a file for each employee to track their time accrued and used, including a log and the time-off requests. We recommend also tracking these days with IPS so employees can confirm their balance on their checks.

Other Items

Accounts Payable - The accounts payable general ledger balance was not accurate as of December 31, 2004. This was due primarily to checks issued during 2005 that related to 2004 expenses that were backdated in the system to reflect the expenditure in the proper period. The general ledger's accounts payable module is set up to handle this activity. At the time ordered goods or services are received, the clerk should input the invoice into the accounts payable module to record the liability and the expenditure. The invoice should be matched with the purchase order and receiver (if goods received) to create an accounts payable document package. Once the payable is in the system and due, the clerk can print the checks for signing, which will then relieve accounts payable and reduce cash. This will not require backdating, since the goods or services will be expensed when received versus when paid, for proper accrual and matching basis.

Status - The accounting consultant recorded open invoices as accounts payable at December 31, 2005. The clerk will be responsible for recording invoices received after year end that relate to the prior year end in the future.

Fixed Asset Schedule - The Township adopted GASB 34 as of January 1, 2004. GASB 34 requires the Township to track and report assets that have been capitalized under the Township's capitalization policy. The Township previously had a general fixed asset account group that listed the accumulated cost of fixed assets over the years maintained by the prior auditors. During 2004, a physical count of all assets owned by the Township was conducted and a schedule created. We reviewed the capital asset schedule, noting that the listing included items under \$1,000-\$5,000 (depending on asset type) and included assets owned by the Fire Department. With this list, we recommend the Township track all purchases of capital outlay over \$1,000-\$5,000 (depending on asset type) to show as additions for each year going forward and any disposals of assets already on the list.

Status - The fixed asset schedule was provided to the Township clerk and should be maintained throughout the year when items over \$1,000-\$5,000 (depending on asset type) are purchased.

Form L-4029 - This form (Millage Request Report to County Board of Commissioners) is required to be submitted to the County and signed by the Township's assessor. We requested this form for 2004 and were unable to obtain a copy from the Township. For 2005, the form was requested from the County again.

Status - This form is the responsibility of the Township clerk. We recommend the Township keep a copy of this form for their records and for audit purposes.

Policies/Procedures - We recommend the following be created/requested by the board:

- ACH/electronic transfer policy - The Township should set up this policy as required by the State of Michigan.
- Voided check retention - The Township should maintain the original voided checks in the vault.
- Banking responsibilities - The Township should identify and assign banking capabilities to specific individuals to complete wire transfers, sign checks, open new accounts, etc.
- Personnel manual - The Township should document all procedures in place and job responsibilities.
- Personal expenses policy/clarification - The Township should document the personal expenses policy and it should be included in the personnel manual.

Status - These policies are still in the process of being created.

General Ledger Detail - The general ledger software should be moved to the network in order to allow the supervisor and the treasurer access to the financial information. They should have access to view the entire general ledger. Access to edit the general ledger should be limited to only those modules necessary to perform their statutory duties.

Status - As of the fall of 2005, all cash receipts could have been entered using the cash receipt module. Only the treasurer and the deputy treasurer have access to the cash receipts module. The clerk can view the entire general ledger which includes the cash receipts posted through the module. To further allow review processes, we recommend allowing both the supervisor and the treasurer the ability to view the entire general ledger. This may entail purchasing additional licenses for the software.

Budgets - Each year, before the beginning of the next fiscal period, the Township should adopt a budget for the General Fund, Fire Fund, and Township Improvement Fund at the activity level instead of account detail level. The budget is required to include a beginning fund balance for each fund with a calculated ending fund balance based on the budgeted revenues and expenditures. In addition, a budget cannot reflect a negative fund balance. The budgets should be formalized, presented to the board, and included in the board packets.

We also noted that for special assessment funds, the Township clerk budgets for special assessment collections of cash as revenue for water and sewer special assessments. However, that cash is not considered revenue when collected; rather, it is a decrease to the special assessment's receivable. The Township should discontinue this practice in the special assessment funds and only budget for interest payments related to special assessments.

Status - The budget was prepared by department/cost center using the trial balance detail. We recommend the budgets be summarized by department/cost center and include a beginning fund balance amount and a budgeted ending fund balance amount for approval by the board. Budgets are required for the General Fund and all Special Revenue Funds.

Bank Accounts for Cash - At December 31, 2004, the Township utilized one cash account for the General Fund, Fire Fund, Trust and Agency Fund, and Lite and Road Funds, including all payroll activity. One cash account is used to track all activity for sewer, water, and special assessments. We recommended separate cash accounts for the Fire Fund, payroll (sweep account), and special assessments. This will provide additional control over tracking restricted cash at the fire department, separate payroll from general disbursements, and be a reliable means of tracking special assessments.

In 2005, it was noted that there is still a commingling of cash from various funds in the same bank account. For example, the Traverse City State Bank general cash account includes General Fund, Township Improvement Fund, Trust and Agency Fund, and several Road and Lite Funds special assessments.

Status - Separate accounts for the Fire Fund, payroll, and special assessments have been set up. We recommend the Township continue to assess the cash accounts and related general ledger accounts for appropriate groupings (for example, the Trust and Agency Fund cash activity should be separate from the General Fund cash activity).

2004 Items Implemented

Material Weaknesses

General Ledger - At December 31, 2004, the trial balance in the Township's general ledger system did not balance individually, by fund, or in total for the Township. We were unable to determine the exact cause of this imbalance. We also found that, in the past, the audit adjustments had not been recorded in the general ledger. This resulted in inaccurate financial information during the year for use by the Township board and management. The software has the ability to utilize an "audit adjustment period" to record the audit adjustments before completing a full close of the fiscal year. This is normally identified as "period 13". We also noted that all individual cash receipts were recorded using a general journal entry in 2005.

Status - The general ledger balanced at December 31, 2005. The clerk plans to utilize the audit adjustment period to post audit adjustments for 2005. The cash receipts module was purchased and has been implemented.

Compactor Station - In 2004, we found no internal controls over the cash received at the compactor station. Cash is taken to the compactor station's employee's home at day's end, tracked by hand on a calendar, and register tapes are not reconciled to the cash received.

The revenue generated by the compactor station is a significant amount, and controls must be put in place to protect the Township residents' cash. These required controls must provide for reliable cash tracking and reconciliation. The cash register should be fully utilized through reconciliations with the tape total. Cash should be deposited nightly through a lockbox. A reconciliation between cash received and the vendor pickup load should be done with each pickup by the disposal service. Other means of tracking revenue could be implemented, such as a punch card purchased in advance. In addition, the Township could also add a sign stating "Please request a receipt" in order to promote additional cash tracking through receipts to the residents.

Status - A punch card system has been implemented in 2005. Cash is not accepted at the compactor station; only punch cards and checks are accepted. Cash received for punch cards is placed in a cash drawer and if not deposited that day, it is locked in a fireproof vault at night.

Reportable Conditions

Check Numbers - In 2004, we found check numbers for cash disbursements in the general ledger do not always agree with the check number cashed by the bank. We reviewed check numbers via the copies provided with each monthly bank statement and found numerous inconsistencies. A possible reason for some of these inconsistencies could be issues with the general ledger system in printing checks and identifying the correct check number printed. It is a necessity to have accurate records reflecting the true activity that is occurring.

A review of the general ledger software is required to help resolve this problem. In addition, before sending the checks out for payment, the clerk should verify that the check numbers agree from the printed checks to the general ledger system.

Status - This issue has been fully resolved in 2005.

Expenditure Review - During the audit, we noted several expenditures coded to an incorrect expenditure account. A general review of cash disbursements for classification between expenditure accounts and/or departments has not been done at the Township. Due to the budgets that are adopted, it is very important that expenditures be classified properly to show where the Township residents' property taxes, state-shared revenue, and various other revenue sources are being spent.

Status - A purchase order policy has been enacted in 2005 that lists the appropriate expense account for each purchase.

Other Items

Budget Deficit - General Fund - The General Fund activity resulted in a fund balance deficit as of December 31, 2004. The financial statements show negative fund balance. The Township should make sure that a deficit elimination plan is filed with the State of Michigan.

Status - The General Fund does not have a deficit at December 31, 2005.

Payroll - In 2004 and through June 20, 2005, payroll was paid including a day that has not yet been worked. Employees were asked to estimate what they'll work that day and then it may or may not be adjusted in the next pay period. We also found that the payroll amounts post to cash in gross amounts versus net amounts (the net amount represents the actual paycheck that clears cash for each employee). The information posting to the cash account is then reversed and adjusted various times in order to possibly reduce cash correctly. We were unable to determine which checks actually reduced cash, due to the system not posting payroll check detail. We believe that this is a problem with the general ledger system.

Status - As of July 1, 2005, when the Township hired IPS for the payroll processing function, the payroll system was changed to include a one-week lag in pay.

Manual Checks - There were a number of manual checks issued from the Township during 2004. We recommend that manual checks not be used at the current time, until other matters can be resolved. If manual checks become necessary, we recommend the board institute a policy to include required approval by the supervisor and clerk before they can be issued.

Status - Implemented

Checks to “Various Township Persons” - In 2004, we found multiple checks addressed to “various township persons” under one check number. This check number did not correspond to the check number, vendor name, or amount on the bank statement. Upon further inquiry and review, we found that this entry in the general ledger represented multiple checks issued to a number of individuals for various services performed. We found that a number of manual checks were issued for payment of services and then the total of these checks was entered into the general ledger as one check addressed to “various township persons.” This process does not properly track the actual activity occurring.

We recommend the Township set up vendors for each individual/company to which the Township makes payments for proper documentation. In addition, this would require the Township to have a Form W-9 on file for each individual/business for tax purposes. This process would ensure that the Township is protected and would have the information to issue a Form 1099.

Status - Implemented

Board Minutes Documentation - The Township’s 2004 board minutes document cash disbursements approved without noting the check range of actual checks approved by the board. We recommend, for additional control, the board document the check range and total dollar amount approved at the board meetings. During 2005, we noted that the board minutes began to document specific warrant ranges and we support this procedure.

Status - Implemented

Form 1099s - We recommend that each January, the clerk print a report by vendor in order to determine which vendors should be issued a Form 1099 for their activity during the year. A Form 1099 is required to be sent to all unincorporated vendors (individuals, partnerships, etc.) providing a professional service and paid \$600 or more during the year by the Township.

Status - Implemented

Bank Account Signers - The Township should remove the clerk’s name from all Township bank accounts. The board should also inform the bank that the clerk no longer has authority to disburse funds from the Township accounts. The clerk’s statutory duties include preparation, but not issuance, of Township checks. It is the treasurer’s responsibility to issue checks.

Status - Implemented. In January 2006, a new clerk was appointed and she has been appropriately added as an account signer.

Credit Cards - Use of Township credit cards should be discontinued, with the exception of the gas card. Expense reports, with supporting receipts, should be submitted to the Township board for approval or expense reimbursement. These could be reviewed in advance by the supervisor with approval recommended on each month's consent calendar of the Township board.

Status: Implemented

Dual Signatures - The Township board should designate a second signature on all Township checks to include the supervisor for convenience. All accounts payable checks and supporting documentation (purchase orders, invoices, etc.) should be given to the designated signatory for review before furnishing his/her signature on the checks. The authorized checks should be given to an individual for mailing who is not involved in the accounts payable process.

Status - Implemented. In January 2006, a new clerk was appointed and she has been appropriately added as an account signer and the supervisor has been removed.

Property Tax Cash Receipts - The Township supervisor should receive a daily listing of cash receipts from the tax roll software and the bank deposit slip, to be matched to the deposits on the monthly bank statements.

Status - Not completed in 2005, but this is no longer necessary in the future.

New Pronouncements

The AICPA issued statements on auditing standards (Statement on Auditing Standards 104 - 111) that will substantially affect the auditing process. The effective date for the Township will be for the audit of the financial statements for the year ending December 31, 2007. At this point, the impact of these standards on our auditing process is being evaluated and we will continue to keep you apprised of the status.

Exposure Draft on Proposed Statement on Auditing Standards - On September 1, 2005, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued an Exposure Draft of a proposed Statement on Auditing Standards (SAS), which would supersede SAS 60, *Communication of Internal Control Related Matters Noted in an Audit*. The proposed effective date is for audits of financial statements for periods ending on or after December 31, 2006 (calendar 2007 for the Township).

This exposure draft establishes standards and provides guidance to enhance the auditor's communication responsibility to the audit committee or its equivalent concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The exposure draft defines internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term reportable condition), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or its equivalent in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.